

2.1 BASIC ACCOUNTING PRINCIPLES

2.1.1 Basic concept of Accounting

Accounting is a business language. We can use this language to communicate financial transactions and their results. Accounting is a comprehensive system to collect, analyze and communicate financial information.

The origin of accounting is as old as money. In early days, the number of transactions were very small, so every concerned person could keep the record of transactions during a specific period of time. Twenty-three centuries ago, an Indian scholar named **Kautilya** alias **Chanakya** introduced the accounting concepts in his book **Arthashastra**. In his book, he described the art of proper account keeping and methods of checking accounts. Gradually, the field of accounting has undergone remarkable changes in compliance with the changes happening in the business scenario of the world.

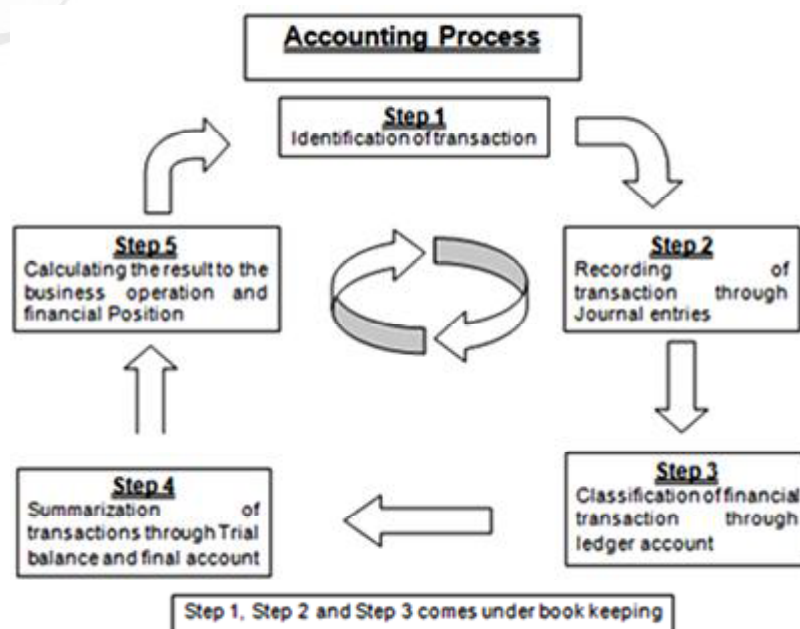
A book-keeper may record financial transactions, according to certain, accounting principles and standards and as prescribed by an accountant depending upon the size, nature, volume and other constraints of a particular organization.

With the help of accounting process, we can determine the profit or loss of the business on a specific date. It also helps us analyze the past performance and plan the future courses of action.

According to **American Institute of Certified Public Accountant**, has defined Financial Accounting “the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which in part at least of a financial character and interpreting the results thereof.”

According to **RN Anthony**, “Nearly every business enterprises has accounting system. It is a mean of collecting, summarizing, analyzing and reporting in monetary terms, information about business”.

The meaning of accounting is broader than of book keeping. The book keeping is the first step of accounting. So, accounting hold book keeping in its fold. Accounting is the process of identifying, measuring, recording, classifying, summarizing, analyzing, interpreting the financial transaction and lastly, communicating to obtained result to is staffs.



Objectives and Scope of Accounting

- **To keep systematic records :** Accounting is done to keep systematic record of financial transactions. The primary objective of accounting is to help us collect financial data and to record it systematically to derive correct and useful results of financial statements.
- **To ascertain profitability :** With the help of accounting, we can evaluate the profits and losses incurred during a specific accounting period. With the help of a Trading and Profit and Loss Account, we can easily determine the profit or loss of a firm.
- **To ascertain the financial position of the business :** A balance sheet or a statement of affairs indicates the financial position of a company as on a particular date. A properly drawn balance sheet gives us an indication of the class and value of assets, the nature and value of liability and also the capital position of the firm. With the help of that, we can easily ascertain the soundness of any business entity.
- **To assist in decision-making :** To take decisions for the future, one requires accurate financial statements. One of the main objectives of accounting is to take right decisions at right time. Thus, accounting gives you the platform to plan for the future with the help of past records.
- **To fulfill compliance of Law :** Business entities such as companies, trusts and societies are being run and governed, according to different legislative acts. Similarly, different taxation laws (direct indirect tax) are also applicable to every business house. Everyone has to keep and maintain different types of accounts and records as prescribed by corresponding laws of the land. Accounting helps in running a business in compliance with the law.

Advantage of Accounting

- It helps to increase the efficiency of all functions of management
- It helps in target-fixing, decision-making, price-fixing, selection of product-mix and so on
- Forecasting and Budgeting help the concern to plan the future and financial activities
- Various tools and techniques provide reliability and authenticity to carry out the business functions
- It is useful in controlling wastage and defects
- It helps in complete communication between all levels of management
- It helps in controlling the cost of production thus increasing the profit percentage
- It is proactive-analyses the governmental policies and socio-economic scenario which helps to assess the external environmental impacts on the organization

Limitation of Accounting

- Based on Historical Cost
- Records only Monetary Transaction
- Accounting permits alternative treatments
- Accounting is Influenced by personal judgments
- Accounting does not provide timely information
- Financial accounting does not provide detailed analysis
- Unsuitable for Forecasting

Users of Accounting

External Users of Accounting Information

1. **Investors :** Those who are interested in investing money in an organization are interested in knowing the financial health of the organization of know how safe the investment already

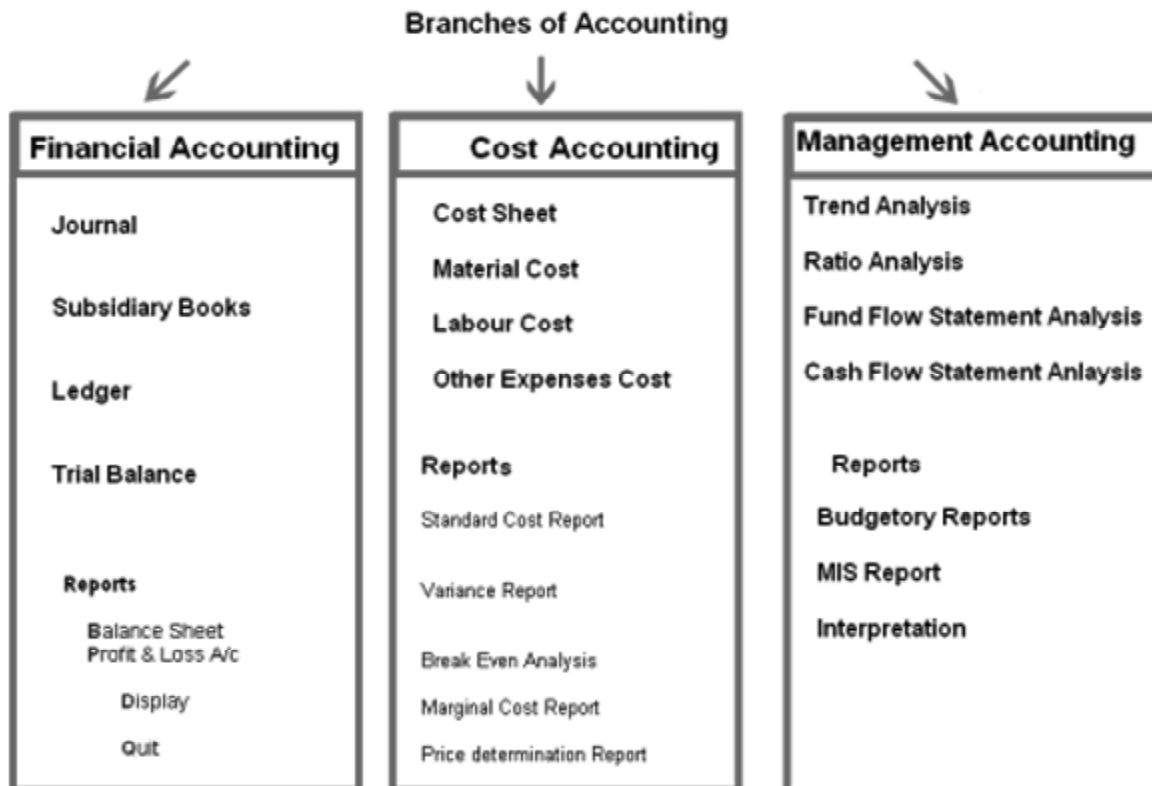
made is and how safe their proposed investment will be. To know the financial health, they need accounting information which will help them in evaluating the past performance and future prospects of the organization.

2. **Creditors** : Creditors (i.e. supplier of goods and services on credit, bankers and other lenders of money) want to know the financial position of a concern before giving loans or granting credit.
3. **Members of Non-profit Organizations** : Members of non-profit organizations such as schools, colleges, hospitals, clubs, charitable institution etc. need accounting information to know how their contributed funds are being utilized and to ascertain if the organization deserves continued support or support should be withdrawn keeping in view the bad performance depicted by the accounting information and diverted to another organization.
4. **Government** : Central and State Governments are interested in the accounting information because they want to know earnings or sales for a particular period for purposes of taxation.
5. **Consumers** : Consumers need accounting information for establishing good accounting control so that cost of production may be reduced with the resultant reduction of the prices of goods they buy. Sometimes, prices for some goods are fixed by the Government, so it needs accounting information to fix reasonable prices so that consumers and manufacturers are not exploited.
6. **Research Scholars** : Accounting information, being a mirror of the financial performance of a business organization, is of immense value to the research scholars who wants to make a study to the financial operations of a particular firm. To make a study into the financial operations of a particular firm, the research scholar needs detailed accounting information relating to purchases, sales, expenses, cost of materials used, current assets, current liabilities, fixed assets, long term liabilities and shareholders' funds which is available in the accounting records maintained by the firm.

Internal Users of Accounting Information

1. **Owners** : The owners provide funds for the operations of a business and they want to know whether their funds are being properly used or not. They need accounting information to know the profitability and the financial position of the concern in which they have invested their funds.
2. **Management** : Management is the art of getting work done through others, the management should ensure that the subordinates are doing work properly. Accounting information is an aid in this respect because it helps a manager in appraising the performance of the subordinates.
3. **Employees** : Employees are interested in the financial position of a concern they serve particularly when payment of bonus depends upon the size of the profits earned. They seek accounting information to know that the bonus being paid to them is correct.

Branches of Accounting



Accounting Principle

Accounting is the language of business through which economic information is communicated to all the parties concerned. In order to make this language easily understandable all over the world, it is necessary to frame or make certain uniform standards which are acceptable universally. These standards are termed as “**Accounting Principles**”.

Accounting principles may be defined as those rules of action or conduct which are adopted by the accountants universally while recording accounting transactions. They are a body of doctrines commonly associated with the theory and procedures of accounting. They are serving as an explanation of current practices and as a guide for selection of conventions or procedures where alternatives exist. These rule and guide are generally called **Generally Accepted Accounting Principle (GAAP)**.

These principles can be classified into two groups.

1. Accounting concepts
2. Accounting conventions.

Accounting Concepts :

1. **Business Entity Concept** : A business and its owner should be treated separately as far as their financial transactions are concerned.
2. **Money Measurement Concept** : Only business transactions that can be expressed in terms of money are recorded in accounting, though records of other types of transactions may be kept separately.
3. **Dual Aspect Concept** : For every credit, a corresponding debit is made. The recording of a transaction is complete only with this dual aspect.
4. **Going Concern Concept** : In accounting, a business is expected to continue for a fairly long time and carry out its commitments and obligations. This assumes that the business will not be forced to stop functioning and liquidate its assets at “fire-sale” prices.
5. **Cost Concept** : The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded minus

depreciation. No rise or fall in market price is taken into account. The concept applies only to fixed assets.

6. **Accounting Year Concept** : Each business chooses a specific time period to complete a cycle of the accounting process—for example, monthly, quarterly, or annually—as per a fiscal or a calendar year.
7. **Matching Concept** : This principle dictates that for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculating profit or loss in a given period.
8. **Realization Concept** : According to this concept, profit is recognised only when it is earned. An advance or fee paid is not considered a profit until the goods or services have been delivered to the buyer.

Accounting Conventions

There are four main conventions in practice in accounting: conservatism; consistency; full disclosure; and materiality.

- **Conservatism** is the convention by which, when two values of a transaction are available, the lower-value transaction is recorded. By this convention, profit should never be overestimated and there should always be a provision for losses.
- **Consistency** prescribes the use of the same accounting principles from one period of an accounting cycle to the next, so that the same standards are applied to calculate profit and loss.
- **Materiality** means that all material facts should be recorded in accounting. Accountants should record important data and leave out insignificant information.
- **Full disclosure** entails the revelation of all information, both favorable and detrimental to a business enterprise and which are of material value to creditors and debtors.

Classification of Accounts :

In accounting, the accounts are classified using one of two approaches – modern approach or traditional approach. We shall describe modern approach first because this approach of **classification of accounts** is used in almost every advanced country. The use of traditional approach is very limited.

Modern approach :

According to modern approach, the accounts are classified as asset accounts, liability accounts, capital or owner's equity accounts, withdrawal accounts, revenue/income accounts and expense accounts.

1. **Asset Accounts** : Assets are things or items of value owned by a business and are usually divided into tangible or intangible. Tangible assets are physical items such as building, machinery, inventories, receivables, cash, prepaid expenses and advance payments to other parties. Intangible assets normally include non-physical items and rights. Examples of intangible assets include goodwill, trademarks, copyrights, patent rights and brand recognition etc.

A separate account for each tangible and intangible asset is maintained by the business to record any increase or decrease in that account.

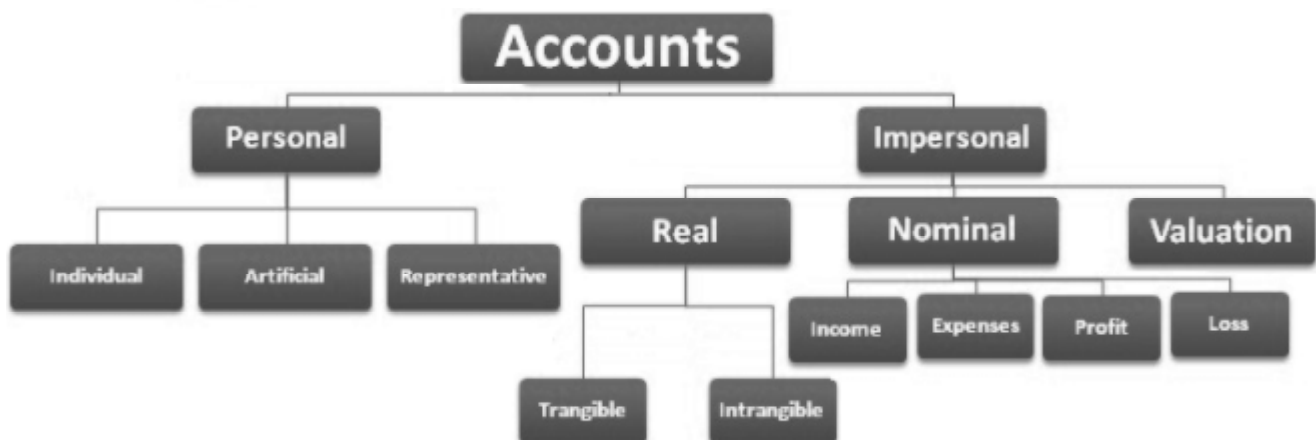
2. **Liability Accounts** : Liabilities are obligations or debts payable to outsiders or creditors. The title of a liability account usually ends with the word "payable". Examples include accounts payable, bills payable, wages payable, interest payable, rent payable and loan payable etc. Besides these, any revenue received in advance is also a liability of the business and is known as unearned revenue. For example, a marketing firm may receive marketing fee from its client for the forthcoming quarter in advance. Such unearned revenue would be recorded as a liability as long as the related marketing services against it are not provided to the client who has made the advance payment.

3. **Capital or Owner's Equity Accounts** : Capital is the owner's claim against the assets of the business and is equal to total assets less all liabilities to external parties. The balance in capital account increases with the introduction of new capital and profits earned by the business and decreases as a result of withdrawals and losses sustained by the business.
In sole proprietorship, a single capital account titled as owner's capital account or simply capital account is used. In partnership or firm, each partner has a separate capital account like John's capital account, Peter's capital account etc. In corporate form of business there are many owners known as stockholders or shareholders and the title capital stock account is used to record any change in the capital.
4. **Withdrawal Accounts** : Withdrawals are cash or assets taken by a business owner for his personal use. In sole proprietorship and partnership, an account titled as drawings account is used to account for all withdrawals. In corporate form of business withdrawals are more systematic and usually termed as distributions to stockholders. The account used for recording such distributions is known as dividend account.
5. **Revenue or Income Accounts** : Revenue is the inflow of cash as a result of primary activities such as provision of services or sale of goods. The term income usually refers to the net profit of the business derived by deducting all expenses from revenue generated during a particular period of time. However, in accounting and finance, the term is also used to denote all inflows of cash resulted by those activities that are not primary revenue generating activities of the business. For example, a merchandising company may have some investment in an oil company. Any dividend received from oil company would be termed as dividend income rather than dividend revenue. Other examples of income include interest income, rent income and commission income etc. The businesses usually maintain separate accounts for revenues and all incomes earned by them.
6. **Expense accounts** : Any resource expended or service consumed to generate revenue is known as expense. Examples of expenses include salaries expense, rent expense, wages expense, supplies expense, electricity expense, telephone expense, depreciation expense and miscellaneous expense.

Traditional Approach

According to traditional approach, the accounts are classified into four types – personal accounts, real accounts, nominal accounts and valuation accounts. A brief explanation of each is given below:

Classification of Accounts based on 'Traditional Approach'



1. **Personal Accounts** : The accounts related to real persons and organizations are classified as personal accounts. Examples of personal accounts include John's account, Peter's account, Procter and Gamble's account, Vibrant Marketing Agency's account and City

bank's account etc. The business keeps a separate account for each individual and organization for the purpose of ascertaining the balance due from or due to them.

- (a) **Natural Personal Accounts** : These accounts are **related to human beings** i.e. natural persons who are created by God. They possess a physical existence.

Examples

Sam's A/C, Maya's A/C, Capital A/C, Drawings A/C, Debtor's A/C, Creditor's A/C, etc. come under the category of natural personal accounts.

- (b) **Artificial Personal Accounts** : Second among three types of personal accounts is "Artificial" personal account. These accounts do not have a physical existence however, they are recognized as persons in business dealings. Most often they are **legal entities created by human beings**.

Examples

Any Public or Private company A/C, Bank A/C, Club A/C, Insurance company A/C, NGO A/C, Cooperative society A/C, etc. would fall under this category.

- (c) **Representative Personal Accounts** : This account is different as compared to the other two types of personal accounts as it refers to accounts which **represent a person or a group**. (It is not directly their account but it represents and is linked to them)

Examples

Outstanding expense A/C, Prepaid expense A/C, Accrued Income A/C, Income received in advance A/C, Unearned commission A/C, etc.

2. **Real Accounts** : Real accounts are accounts related to assets or properties (both tangible and intangible) owned by a business enterprise. A separate account for each asset is maintained to account for increases and decreases in that asset. Examples of real accounts include cash account, inventory account, investment account, plant account, building account, goodwill account, patent account, copyright account etc.
3. **Nominal Accounts**: The accounts related to incomes, gains, expenses and losses are classified as nominal accounts. These accounts normally serve the purpose of accumulating data needed for preparing Income Statement or profit and loss account of the business for a particular period. Examples of nominal accounts include sales account, purchases account, wages account, salaries account, interest account, rent account, gain on sale of fixed assets account and loss on sale of fixed assets account etc.
4. **Valuation Account** : Valuation account (also known as contra account) is an account used to report the carrying value of an asset or liability in the balance sheet. A popular example of valuation account is the accumulated depreciation account. Companies maintaining fixed assets in the books of accounts at their original cost also maintain an accumulated depreciation account for each fixed asset.

Golden Rule of Accounting

Rules of Double Entry System

Accounts	Rules
Personal	● Debit the receiver
	● Credit the giver
Real	● Debit what comes in
	● Credit what goes out
Normal	● Debit all expenses and losses
	● Credit all incomes and gains

1. **Debit The Receiver, Credit The Giver** : This principle is used in the case of personal accounts. When a person gives something to the organization, it becomes an inflow and therefore the person must be credit in the books of accounts.
2. **Debit What Comes In, Credit What Goes Out** : This principle is applied in case of real accounts. Real accounts involve machinery, land and building etc. They have a debit balance by default. Thus when debit what comes in, adding to the existing account balance. This is exactly what needs to be done. Similarly when credit what goes out, reducing the account balance when a tangible asset goes out of the organization.
3. **Debit All Expenses and Losses, Credit All Incomes And Gains** : This rule is applied when the account in question is a nominal account. The capital of the company is a liability. Therefore, it has a default credit balance. When credit all incomes and gains, increase the capital and by debiting expenses and losses, decrease the capital. This is exactly what needs to be done for the system to stay in balance.

Double Entry System

The first book on **double entry system** was written by an Italian mathematician Fra Luca Pacioli and his close friend Leonardo da Vinci.

The double entry system of accounting or bookkeeping is based on the fact that each business transaction essentially brings two financial changes in business. These changes are recorded as debits or credits in two or more different accounts using certain rules known as 'Rules of debit and credit'. In double entry system, every debit entry must have a corresponding credit entry and every credit entry must have a corresponding debit entry.

The fundamental principle of double entry system lies in analyzing the two changes (parties) involved in business transactions and properly recording of both the changes in the books of accounts. There is no exception to this principle. If a complete picture of the transactions is to be reflected through books of accounts, the double entry system must be duly observed. Otherwise the books of accounts will fail to provide complete information and the very objective of accounting will be defeated.

Following are the successive processes of the double entry system :

Journal : Transactions are recorded in a book known as journal.

Ledger : In the second process, the transactions are classified in a suitable manner and recorded in another book known as ledger.

Trial Balance : In the third process, the arithmetical accuracy of the books of account is tested by means of trial balance.

Final Accounts : In the fourth and final process the result of the full year's working is determined through final accounts.

Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Debit	Credit
Asset	Liability + Owner's Equity
increase + put values in debit side.	increase + put values in credit side.
decrease – put values in credit side.	decrease – put values in debit side.

The three components of the basic accounting formula are :

- **Assets** : These are the tangible and intangible assets of a business, such as cash, accounts receivable, inventory and fixed assets.

- **Liabilities** : These are the obligations of a business to pay its creditors, such as for accounts payable, accrued wages and loans.
- **Shareholder's Equity** : This is funds obtained from investors, as well as accumulated profits that have not been distributed to investors.

In essence, a business uses liabilities and shareholders' equity to obtain sufficient funding for the assets its needs to operate.

The basic accounting formula must balance at all times. If not, a Journal Entry was entered incorrectly and must be fixed before financial Statement can be issued. This balancing requirement is most easily seen in the balance sheet (also known as the statement of financial position), where the total of all assets must equal the combination of all liabilities and all shareholders' equity.

The basic accounting formula is one of the fundamental underpinnings of accounting, since it forms the basis for the recordation of all accounting transactions. In essence, if both sides of the basic accounting formula do not match at all times, there is an error in the accounting system that must be corrected.

The following table shows how a number of typical accounting transactions are recorded within the framework of the accounting equation:

Transaction Type	Assets	Liabilities + Equity
Buy fixed assets on credit	Fixed assets increase	Accounts payable (liability) increases
Buy inventory on credit	Inventory increases	Accounts payable (liability) increases
Pay dividends	Cash decreases	Retained earnings (equity) decreases
Pay rent	Cash decreases	Income (equity) decreases
Pay supplier invoices	Cash decreases	Accounts payable (liability) decreases
Sell goods on credit (part 1)	Inventory decreases	Income (equity) decreases
Sell goods on credit (part 2)	Accounts receivable increases	Income (equity) increases
Sell services on credit	Accounts receivable increases	Income (equity) increases
Sell stock	Cash increases	Equity increases

Journal

Journal is a book of accounts in which all day to day business transactions are recorded in a chronological order i.e. in the order of their occurrence. Transactions when recorded in a Journal are known as entries. It is the book in which transactions are recorded for the first time. Journal is also known as '**Book of Original Record**' or '**Book of Primary Entry**'.

Every business transaction affects two accounts. Applying the principle of double entry one account is debited and the other account is credited. Every transaction can be recorded in journal. This process of recording transactions in the journal is known as '**Journalising**'.

In small business houses generally, one Journal Book is maintained in which all the transactions are recorded. But in case of big business houses as the transactions are quite large in number, therefore journal is divided into various types of books called Special Journals in which transactions are recorded depending upon the nature of transaction i.e. all credit sales in Sales Book, all cash transactions in Cash Book and so on.

Format of Journal

Date	Particulars	L.F	Amount	Amount
	Account to be debitedDr. Account to be credited (Narration)		XXX	XXX

Column wise details of journal is as :

1. **Date** : In this column, we record the date of the transactions with its month and accounting year. We write year only once at the top and need not repeat it with every date.
2. **Particulars** : The accounts affected by a transaction i.e the accounts which have to be debited or credited are recorded in this column. After every journal entry, horizontal line is drawn in the particulars column to separate one entry from the other.
3. **Ledger Folio** : In ledger-folio column we enter the page-number where the account pertaining to the entry is opened and posting from the Journal is made.
4. **Dr. Amount** : In this column, the amount to be debited is written against the same line in which the debited account is written.
5. **Cr. Amount** : In this column, the amount to be credited is written against the same line in which the credited account is written.

Journalize the Following Transactions

2005

Feb. 3 X commenced business with a capital of Rs. 15,000

05 Purchased good Rs. 6,000

07 Purchased goods on credit from S and Co. Rs. 3,000

10 Purchased furniture Rs. 2,400

11 Sold goods Rs. 3,900

15 Sold goods on credit to D Rs. 2,250

20 Paid salaries Rs. 960

25 Received commission Rs. 75

26 Returned goods to S and Co. Rs. 600.

27 Returned goods by D Rs. 450

28 Received from D Rs. 1,500

Paid to S and Co. Rs. 1,800

X withdrew from business Rs. 900

Charged depreciation on Rs. 240

Borrowed from K Rs. 1,500

Journal

Date	Particular	L.F	Amount	Amount
2018				
Feb. 3	Cash A/CDr. Capital (Being capital brought in)		15,000	15,000
5	Purchases A/C.....Dr. Cash A/C (Being goods purchased for cash)		6,000	6,000
7	Purchases A/C.....Dr. S and Co. A/C (Being goods purchased form S and Co on credit)		3,000	3,000
10	Furniture A/C.....Dr. Cash A/C (Being furniture purchased for cash)		2,400	2,400

11	Cash A/C.....Dr. Sales A/C (Being goods sold for cash)		3,900	3,900
15	D Bros. A/C.....Dr. Sales A/C (Being goods sold on credit to D)		2,250	2,250
20	Salaries A/C.....Dr. Cash A/C (Being salaries paid)		960	960
25	Cash A/C.....Dr. Commission A/C (Being commission received)		75	75
26	S and Co. A/C.....Dr. Purchases A/C Return (Being goods returned to S and co.)		600	600
27	Sales Returns A/C.....Dr. D Bros. A/C (Being goods returned by D Bros.)		450	450
28	Cash A/C.....Dr. D Bros. A/C (Being amount received from D Bros.)		1,500	1,500
"	S and Co. A/C.....Dr. Cash A/C (Being amount paid to S and Co.)		1,800	1,800
"	Drawings A/C.....Dr. Cash A/C (Being amount paid to S and Co.)		900	900
"	Depreciation A/C.....Dr. Furniture A/C (Being depreciation charged on furniture)		240	240
"	Cash A/C.....Dr. K A/C (Being amount borrowed from K)		1,500	1,500

Adjusting Entry

Outstanding Expenses : In case the same expense is not paid during the year, it becomes outstanding for that particular year. It is the liability of the business for that year and, thus, expense outstanding account will be credited, because liabilities are credited for increase.

Exp. A/c Dr.

To outstanding Exp. A/c

Prepaid Expenses : It should be treated as an asset in the current year as the services will be received only in the next year (but the payment has been made in this year). As an increase in asset is debited, so prepaid expense account will also be debited.

Prepaid Exp. A/c Dr.

To Expenses A/c

Accrued Income : In case, income has been earned but it has not been received till now, it is an accrued income. Accrued Income is an asset, as there will be an increase in the asset, it will be debited.

Accrued Income A/c Dr.

To Income A/c

Income Received in Advance : Whenever Income is received in advance during the current year i.e. it is received for the next year, it should not be included in the current year's income. As this income pertains to the next year, it cannot be treated as income in the current year, so it becomes a liability. As there is an increase in the liability, it should be credited.

Income A/c Dr.

To Received in Advance A/c

Ledger

In simple terms the ledger accounts are where the double entry records of all transactions and events are made. They are the principal books or files for recording and totalling monetary transactions by account. An entity's financial statements are generated from summary totals in the ledgers. The term 'nominal ledger' or 'general ledger' is used to refer to the overall system of ledger accounts used within an entity.

It houses all the separate ledgers required to produce a complete trial balance and, consequently, set of financial statements.

A ledger account is a record of the transactions involving a particular item.

A ledger account may be thought of as a record kept as a page in a book. The book contains many pages - many accounts - and is referred to as a ledger.

We are concerned with the nominal ledger, which is the ledger containing all of the accounts necessary to summarise an entity's transaction and prepare a statement of financial position and statement of profit or loss.

Each account comprises two sides: the left hand side is referred to as the debit side and the right-hand side is referred to as the credit side. The format is shown below :

Format of Ledger Account							
Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)

Characteristics of Ledger Account

The ledger has the following main characteristics :

1. It has two identical sides - left hand side (debit side) and right hand side (credit side).
2. Debit aspect of all the transactions are recorded on the debit side and credit aspects of all the transactions are recorded on credit side according to date.
3. The difference of the totals of the two sides represents balance. The excess of debit side over credit side indicates debit balance, while excess of credit side over debit side indicates the credit balance. If the two sides are equal, there will be no balance.
4. Generally, the balance is drawn at the year end and recorded on the lesser side to make the two sides equal. This balance is known as **closing balance**.
5. The closing balance of the current year becomes the opening balance of the next year.

Posting Procedure

Transferring information i.e. entries from journal to ledger accounts is called posting. The procedure of posting from journal to ledger is as follows:

1. Locate the ledger account from the first debit in the journal entry.
2. Record the date in the date column on the debit side of the account. The date is the date of transaction rather than the date of the posting.
3. Record the name of the opposite account (account credited in entry) in the particular (also known as reference column, description column etc) column.
4. Record the page number of the journal in the journal reference (J.R) column from where the entry is being posted.
5. Record the amount of the debit in the "amount column"
6. Locate the ledger account for the first credit in the journal and follow the same procedure.

Balancing An Account

The difference between the two sides of an account is its balance. The balance is written on the lesser side to make the two sides equal. The process of equalizing the two sides of an account is known as **balancing**.

If the debit side of an account is heavier, its balance is known as debit balance and if the credit side of an account is heavier its balance is known as credit balance. If the two sides are equal, that account will show zero balance. The rules for determining the balance is as follows:

Total debit	=	More than total credit	=	Debit balance
Total credit	=	More than total debit	=	Credit balance
Total debit	=	Total credit	=	Nil balance

It may be noted that at the time of balancing an account debit balance is placed on the credit side and credit balance on debit site. This balance is known as closing balance. What is closing balance in this year, is the opening balance of the next year.

Ex. Enter the following transactions in journal and post them into ledger :

2018	
Jan. 1	Mr. Javed started business with cash Rs. 100,000
2	He purchased furniture for Rs. 20,000
3	He purchased goods for Rs. 60,000
5	He sold goods for cash Rs. 80,000
6	He paid salaries Rs. 10,000

Sol. Journal

Date	Particular	L.F	Amount	Amount
2018				
Jan. 1	Cash A/CDr. Capital (Being capital brought in)	9 11	100,000	100,000
2	Furniture A/C.....Dr. Cash A/C (Being furniture purchased for cash)	13 9	20,000	20,000
3	Purchases A/C.....Dr. Cash A/C (Goods purchased for cash)	15 9	60,000	60,000
5	Cash A/C.....Dr. Sales A/C (Sold goods for cash)	9 17	80,000	80,000
6	Salaries A/C.....Dr. Cash A/C Return (Salaries paid)	19 9	10,000	10,000

Ledger
Cash Account (No.9)

Date	Particulars	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.1	Capital A/C	1	100,000	Jan.2	Furniture A/C	1	20,000
Jan.5	Sales A/C	1	80,000	Jan.3	Purchases A/C	1	60,000
				Jan.6	Salaries A/C	1	10,000
					Balance c/d		90,000
	Total		180,000		Total		180,000

Capital Account (No.11)

Date	Particulars	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.6	Balance c/d		100,000	Jan.1	Cash A/C	1	100,000
	Total		100,000		Total		100,000

Furniture Account (No.13)

Date	Particulars	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.2	Cash A/C	1	20,000	Jan.6	Balance c/d		20,000
	Total		20,000		Total		20,000

Purchases Account (No.15)

Date	Particulars	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.3	Cash A/C	1	60,000	Jan.6	Balance c/d		60,000
	Total		60,000		Total		60,000

Sales Account (17)

Date	Particulars	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.6	Balance c/d		80,000	Jan.5	Cash A/C	1	80,000
	Total		80,000		Total		80,000

Salaries Account (19)

Date	Particulars	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.6	Cash A/C	1	10,000	Jan.6	Balance c/d		10,000
	Total		10,000		Total		10,000

Self- Balancing ledger :

A self-balancing ledger is one whose balances, when extracted, form a complete trial balance. In other words, each ledger is self-balancing. Under this system, each ledger is maintained under double entry principle, i.e., the principle of double entry is completed within the ledger itself.

Naturally, the ledger which contains a double entry is also provided with a corresponding credit entry and vice versa. This is done with the help of an account, viz., General Ledger Adjustment Account (to be maintained in Debtors and Creditors Ledgers) and also two other accounts, viz., Debtors/Sales Ledger Adjustment Account and Creditors/Purchases Ledger Adjustment Account (to be maintained in General Ledger). Thus, these aforesaid three accounts are to be maintained under self-balancing system.

Therefore, the three ledgers have the following accounts :

(1) Sales/Debtors Sold Ledger Deals with :

- (i) Accounts relating to trade debtors; and
- (ii) General Ledger Adjustment Account.

(2) Purchases/Creditors Bought Ledger Deals with :

- (i) Accounts relating to trade creditors; and
- (ii) General Ledger Adjustment Account.

(3) General/Nominal Ledger Deals with : Accounts relating to nominal, real and personal (other than trade debtors and trade creditors stated above); Debtors Ledger Adjustment Account and Creditors Ledger Adjustment Account.

The following journal entries are passed to make the Purchase Ledger self-balancing :

General Ledger Adjustment Account	Dr
(in Purchase Ledger)	
To Purchase Ledger Adjustment Account	
(in General Ledger)	

- (2) For total cash paid to creditors, discount received and bills accepted, purchases, returns etc.

Purchase Ledger Adjustment Account	Dr
(in General Ledger)	
To General Ledger Adjustment Account	
(Purchase Ledger)	

- (1) The following journal entries are passed to make the Sales Ledger self-balancing:
For credit sales, bills receivable dishonoured, interest and expenses charged to debtors:

Sales Ledger Adjustment Account Dr
(in General Ledger)

To General Ledger Adjustment Account
(Sales Ledger)

- (2) For total of cash received from debtors, discount allowed to them bills received, sales returns and bad debts written off etc.

General Ledger Adjustment Account Dr
(in Sales Ledger)

To Sales Ledger Adjustment Account
(in General Ledger)

Specimen of Adjustments in the Creditors' Ledger					
General Ledger Adjustment Account					
Dr.					Cr.
	Rs			Rs	
To Balance b/d			By Creditors' Ledger		
To Creditors' Ledger Adjustment A/c (in General Ledger)			Adjustment A/c (in General Ledger)		
Purchases			Cash Paid		
Interest Payable			Discount Received		
Carriage Charged			Bills Payable		
B/P Dishonoured			Returns Outward		
Nothing Charges			Allowances		
Refund from Creditors'			Transfer		
Discount Disallowed			By Balance c/d		
Cheque dishonoured					

In Debtors' Ledger					
General Ledger Adjustment Account					
Dr.					Cr.
	Rs			Rs	
To Debtors' Ledger			By Balance b/d		
Adjustment A/c (in General Ledger)			By Debtors' Ledger Adjustment		
Cash received			A/c (in General Ledger)		
Discount			Sales		
Bills Receivable			Cheque dishonoured		
Allowance to Debtors			B/R dishonoured		
Return Inward			Bills Renewed		
Bad Debts			Nothing charges		
To Bank (Cheque Received)			Interest charged		
Transfer			Carriage charged		
To Balance c/d			Expenses charged		
			Refunds to Debtors		
			Discount disallowed		

In General Ledger				
Creditors' Ledger Adjustment Account				
Dr.				Cr.
		Rs		Rs
To General Ledger Adjustment A/c (in General Ledger)			By Balance b/d	
Cash paid			By General Ledger Adjustment A/c (in Creditors' Ledger)	
Discounts			Purchase	
Bills Payable			B/R dishonoured	
Returns Outward			Nothing charges	
Allowances			Interest Payable	
Transfer			Carriage charged	
To Balance c/d			Expenses Payable	
			Refunds to creditors	
			Discount disallowed	
			Cheque Dishonoured	

In General Ledger				
Debtors' Ledger Adjustment Account				
Dr.		Cr.		
		Rs		Rs
To	Balance b/d		By	General Ledger Adjustment A/c
To	General Ledger Adjustment A/c			(in Debtors' Ledger)
	(in Debtor's Ledger)			
	Sales			Cash received
	Cheque dishonoured			Discount allowed
	B/R dishonoured			B/R
	Bills Renewed			Return Inward
	Nothing charges			Allowances
	Interest charged			Bad Debts
	Carriage charged			Bank (cheque received)
	Expenses charged			Transfer
	Refund to Debtors		By	Balance c/d
	Discount disallowed			

The following items will not affect the self balancing ledger :

1. Any cash sale or cash purchase of goods.
2. Bills receivable discounted.
3. Recovery of bad debts.
4. Trade discount.
5. Bills receivable endorsed.
6. Bills received honoured.
7. Any sort of provision on debtors or creditor etc.

Cash Book

Cash Book is a Book in which all cash receipts and cash payments are recorded. It is also one of the books of original entry. It starts with the cash or bank balance at the beginning of the period. In case of new business, there is no cash balance to start with. It is prepared by all organizations. When a cash book is maintained, cash transactions are not recorded in the Journal and no cash or bank account is required to be maintained in the ledger as Cash Book serves the purpose of Cash Account.

Types and Preparation

- Single Cash Book
- Double Column Cash Book
- Three Column Cash Book
- Petty Cash Book


Single Column Cash Book

In this Cash Book entry and posting are made for purely cash transactions. It has only one amount column in each of the debit and credit sides.

Dr.	Single Column Cash Book					Cr.			
Date	Particulars	V.No.	L.F.	Amount	Date	Particulars	V.No.	L.F.	Amount
				Rs.					Rs.

Double Column Cash Book

In this Cash Book entry and posting are made for cash and bank transactions. The design of this Cash Book is like the single column Cash Book except that it has two amount columns on both the debit and credit sides.

Dr.	Double Column Cash Book										Cr.
Date	Particulars	V.No.	L.F.	Cash	Bank	Date	Particulars	V.No.	L.F.	Cash	Bank
				Amount	Amount					Amount	Amount
				Rs.	Rs.					Rs.	Rs.
											

Triple Column Cash Book

In this Cash Book three amount columns are maintained on both the debit and credit sides the first column is for discount, the second for cash and the third for bank.

Dr.	Triple Column Cash Book										Cr.		
Date	Particulars	V. No.	L. F.	Discount	Cash	Bank	Date	Particulars	V. No.	L. F.	Discount	Cash	Bank
				Paid Rs.	Amount	Amount					Paid Rs.	Amount	Amount
					Rs.	Rs.						Rs.	Rs.

Petty Cash Book

Petty cash book is a type of cash book that is used to record minor regular expenditures such as office teas, bus fares, fuel, newspapers, cleaning, pins and casual labor etc. These small expenditures

are usually paid using coins and currency notes rather than checks. The person responsible for spending petty cash and recording it in a petty cash book is known as petty cashier.

Dr.	Company Petty Cash Book							Cr.
Receipt	Date	Details	VN	Total	Expense 1	Expense 2	Expense 3	Expense 4

Trial Balance

The transactions are entered in the Journal and Special Purpose Books like Cash Book, Purchases Book, Sales Book, etc. From these books items are posted in the ledger in their respective accounts. Finally, at the end of the accounting year these accounts are balanced. To check the accuracy of posting in the ledger a statement is prepared with two columns i.e. debit column and credit column which contain debit balances of accounts and credit balances of accounts, respectively. Total of the two columns are if equal, it means the ledger posting is arithmetically correct. This statement is called Trial Balance.

Trial Balance consists of a debit column with all debit balances of accounts and credit column with all credit balances of accounts. The totals of these columns if tally it is presumed that ledger has been maintained correctly. However, Trial Balance proves only the arithmetical accuracy of posting in the ledger.

Objectives of Preparing a Trial Balance

- (i) **To Check Arithmetical Accuracy** : Arithmetical accuracy in ledger posting means writing correct amount, in the correct account and on its correct side while posting transactions from various original books of accounts, such as Cash Book, Purchases Book, Sales Book, etc. It also means not only the correct balance of ledger account but also the totals of the special purpose Books.
- (ii) **To help in Preparing Financial Statements** : The ultimate objective of the accounting is to prepare financial statements i.e. Trading and Profit and Loss Account and Balance sheet of a business enterprise at the end of an accounting year. These statements contain balances of various ledger accounts. As Trial Balance contains balances of all ledger accounts, in financial statements the balances of ledger accounts are carried from the Trial balance for proper analysis.
- (iii) **Helps in Locating Errors** : If total of two columns of the trial balance agrees it is a proof of arithmetical accuracy in the ledger posting. However, if the totals of the two columns do not tally it indicates that there is some mistake in the ledger accounts. This prompts the accountant to find out the errors.
- (iv) **Helps in Comparison** : Comparison of ledger account balances of one year with the corresponding balances with the previous year helps the management taking some important decisions. This is possible by using the Trial Balances of the two years.
- (v) **Helps in making Adjustments** : While making financial statements adjustments regarding closing stock, prepaid expenses, outstanding expenses etc are to be made. Trial balance helps in identifying the items requiring adjustments in preparing the financial statements.

Proforma of Trial Balance

Trial Balance as on _____

S. No.	Name of the Account	LF	Debit Rs.	Credit Rs.

Methods of Trial Balance

There are three methods of preparing Trial Balance

- (i) Balance Method
- (ii) Total Method
- (ii) Balance Totals Method

(i) Balance Method : In this Balance method, the balance of each account (which may be debit balance or credit balance) is extracted and written against each account; write debit balance in the debit column and credit balance in the credit column.

(ii) Total Method : In this method the total of both sides of every account in the ledger is written against the name of the respective account without balancing them in the form of debit and credit balances respectively.

(iii) Balance totals Method : Trial Balance is prepared by combining the first and second methods. However, in practice the trial balance is prepared with debit and credit balances of various accounts in the ledger. Normally balance method is used.

Depreciation

The reduction in value of a tangible fixed asset due to normal usage, wear and tear, new technology or unfavorable market conditions is called Depreciation. Assets such as **plants and machinery, buildings, vehicles**, etc. which are expected to last more than one year, but not for infinity, are subject to this reduction. It is an allocation of the cost of a fixed asset in each accounting period during its expected time of use.

Types of Depreciation

- Straight Line Method
- Diminishing Value Method
- Annuity method
- Sinking Fund Method

Straight Line Method

Also known as Original cost method, Fixed installment method and Fixed percentage method. Simplest, most used and popular method of charging depreciation is the straight-line method. An equal amount is allocated for each accounting period.

Straight Line Method Formula

$$\text{Depreciation} = \frac{\text{Total Cost of Asset} - \text{Scrap Value}}{\text{Years of Useful Life}}$$

Ex. A manufacturing company purchase a machinery for Rs. 1,50,000/- and the estimate useful life of the machine is 6 years and the salvage value of the machinery is Rs. 30,000/- Calculate Depreciation using Straight Line Method.

Sol. Depreciation = $(1,50,000 - 30,000)/6 = \text{Rs. } 20,000/-$

Thus, the company can write off Rs. 20,000/- as the depreciation expense every year over the next 6 years.

Diminishing Value Method

Also known as **Written down value method**, **Reducing installment method** and **Fixed percentage on diminishing balance**.

According to the diminishing value method, depreciation is charged on **reducing balance** and a fixed rate. Depreciation, in this case, is charged over the useful life of an asset over its written down value. The percentage, at which depreciation is charged, remains fixed, however, the amount of depreciation goes on diminishing year after year.

According to the Diminishing Value Method,

$$D = 1 - \sqrt[n]{\frac{r}{c}}$$

- D = Depreciation %
- n = Useful life of the asset in years
- r = residual value of the asset
- c = Cost of asset

For Example

Cost of 1st Machine – Rs. 5,82,000 + Rs. 18,000 = Rs. 6,00,000 Profit/Loss on sale of 1st Machine = Cost of 1st July – Sale Value
(Rs. 4,86,000 – Rs. 24,300) = Rs. 4,61,700 – Rs. 2,86,000 Loss on Sale of Machine = Rs. 1,75,700

Working Notes

Depreciation charged on Sold Machinery

Cost of the Machinery on 01-01-2014	1,20,000
Less : Depreciation on 31-12-2014	–12000
Book Value on 01-01-2015	1,08,000
Less : Depreciation on 31-12-2015	–10800
Book Value on 01-01-2016	97,200
Less : Depreciation on 31-12-2016	–9720
Book Value on 01-01-2017	87,480
Less : Depreciation on 31-12-2017	–8,748
Book Value on 01-01-2018	78,732
Loss on sale of Machinery	
Cost of sale of Machinery	1,20,000
Less : Dep. Charged till Sale	–41,268
(12,000 + 10,809 + 9,720 + 8,748)	
Book Value on 01-01-2018	78,732
Less : Sale Price	–34,500
Loss on sale of Machinery	44,232

Depreciation on Remaining Machinery

Cost of Remaining Machinery (800,000 – 120,000)	6,80,000
Less : Accumulated Depreciation thereon (till 31-12-2017)	–276,372
(3,18,000 – 41,268)	
Book Value on 01-01-2018	4,03,628
Depreciation (4,03,628 × 10/100) = 40362.8 = 40363	

Annuity Method

Under **annuity method** of depreciation the cost of asset is regarded as investment and interest at fixed rate is calculated thereon. Had the proprietor invested outside the business, an amount equal to the cost of asset, he would have earned some interest. So, as a result of buying the asset the proprietor loses not only cost of asset by using it, but also the above mentioned interest. Hence depreciation is calculated in such a way as will cover both the above mentioned losses. The amount of annual depreciation is determined from annuity table.

Sinking Method

Under **depreciation fund method** or **sinking fund method**, a fund is created with the amount of annual depreciation. An amount equal to annual depreciation is invested each year in government papers or in some other gilt-edged securities outside the business. The income earned from investment is deposited into the fund and immediately reinvested. This process is carried out throughout the life of the asset and at the end of its life a sum equal to the cost of the asset is accumulated in the fund. Then the whole investment is sold and a new asset is acquired with the sale proceeds.

The special feature of this method is that the sum required to buy the new asset is available from depreciation or sinking fund. As a result, the working capital of business is preserved. Sinking fund method is specially applicable to costly machines in large scale industries.

2.1.2 Accounting Postulates - Concepts and Conversions

Accounting Concept:

Accounting Concept defines the assumptions on the basis of which Financial Statements of a business entity are prepared. Certain concepts are received assumed and accepted in accounting to provide a unifying structure and internal logic to accounting process. The following are the widely accepted accounting concepts.

1. Entity Concept: Entity Concept says that business enterprises is a separate identity apart from its owner. Business transactions are recorded in the business books of accounts and owner's transactions in this personal back of accounts. The concept of accounting entity for every business or what is to be excluded from the business books. Therefore, whenever business received cash from the proprietor, cash a/c is debited as business received cash and capital/c is credited. So the concept of separate entity is applicable to all forms of business organization.

2. Money Measurement Concept: As per this concept, only those transactions, which can be measured in terms of money are recorded. Since money in the medium of exchange and the standard of economic value, this concept requires that these transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. For example, health condition of the chairman of the company, working conditions of the workers, sale policy etc.. do not find place in accounting because it is not measured in terms of money.

3. Cost Concept: By this concept, the value of assets is to be determined on the basis of historical cost. Transaction are entered in the books of accounts at the amount actually involved. For example, a machine purchased for Rs. 80000 and may consider it worth Rs. 100000, But the entry in the books of account will be made with Rs. 80000 or the amount actually paid. The cost concept does not mean that the assets will always be shown at cost. The assets may be recorded at the time of purchase but it may be reduced its value be charging depreciation.

4. Going Concern Concept: According to this concept the financial statements are normally prepared on the assumption that an enterprises is a going concern and will continue in operation for the foreseeable future. Transaction are therefore recorded in such a manner that the benefits likely to accrue in future from money spent. It is because of this concept that fixed assets are recorded at their original cost and depreciation in a systematic manner without reference to their current realizable value.

5. Dual aspect Concept: This concept is the core of double entry book-keeping. Every transaction or event has two aspects. If any event occurs, it is bound to have two effects. For Rs.50000, on the one hand stock will increase by Rs.50000 and other liability will increase by Rs.50000. Similarly, if X starts a business with a capital of Rs. 50000, while on the other hand the business has to pay Rs. 50000 to the proprietor which is taken as proprietor's Capital.

6. Realization Concept: It closely follows the cost concept any change in value of assets is to be recorded only when the business realizes it. i.e. either cash has been received or a legal obligation to pay has been assumed by the customer. No sale can be said to have taken place and no profit can be said to have arisen. It prevents business firms from inflating their profit by recording sale and income that are likely to accrue, i.e. expected income or gain are not recorded.

7. Accrual Concept: Under accrual concept the effect of transaction and other events are recognized on mercantile basis. When they accrue and not as cash or a cash equivalent is received or paid and they are recorded in the accounting record and reported in the financial statements of the periods to which they relate financial statement prepared on the accrual basis informs users not only of past events involving the payment and receipt of cash but also of obligation to pay cash in the future and of resources that represent cash to be received in the future.

8. Accounting Period Concept: This is also called the concept of definite periodicity concept as per going concern concept on indefinite life of the entity is assumed for a business entity it causes inconvenience to measure performance achieved by the entity in the ordinary course of business. Therefore, a small but workable fraction of time is chosen out of infinite life cycle of the business entity for measure the performance and loading at the financial position 12 months period is normally adopted for this purpose accounting to this concept accounts should be prepared after every period & not to the end of the life of the entity. Usually this period is one calendar year.

9. Matching Concept: In this concept, all exp. Matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization. If any revenue is recognized that exp. Related to earn that revenue should also be recognized. This concept as it considers the occurrence of exp. And income and do not concentrate on actual inflow or outflow of cash. This leads to adjustment of certain items like prepaid and outstanding expenses, unearned or accrued income. It is not necessary that every exp. Identifies every income.

10. Objective Concept: As per this concept, all accounting must be based on objective evidence. In other words, the transactions recorded should be supported by verifiable documents. Only then auditors can verify information recorded as true or otherwise. The evidence should not be biased. It is for these reasons that assets are recorded at historical cost and shown thereafter at historical less depreciation. If the assets are shown on replacement cost basis, the objectivity is lost and it becomes difficult for auditors to verify such value, however, in present year replacement cost are used for specific purpose as only they represent relevant costs. For example, to find out intrinsic value of share, we need replacement cost of assets and not the historical cost of the assets.

Accounting Conventions:

The term "Accounting Conventions" refers to the customs or traditions which are used as a guide in the preparation of accounting reports and statements. The conventions are derived by usage and practice. Following are important accounting conventions in use:

1. Convention of consistency: According to this convention the accounting practices should remain unchanged from one period to another. It requires that working rules once chosen should not be changed arbitrarily and without notice of the effect of change to those who use the accounts. For example, stock should be valued in the same manner every year. Similarly, depreciation is charged on fixed assets on the same method year after year. If this assumption is not followed, the fact should be disclosed together with reasons.

The principle of consistency plays its role particularly when alternative accounting methods is equally acceptable. Any change from one method to another method would result in inconsistency; they may seem to be inconsistent apparently. In case of valuation of stocks if the company applies the principle "at cost or market price whichever is less" and if this principle accordingly result in the valuation of stock in one year at cost and the market price in the other year, there is no inconsistency here. It is only an application of the principle.

An Enterprise should change its accounting policy in any of the following circumstances only.

- i. To bring the books of accounts in accordance with the issued accounting standard.
- ii. To compliance with the provision of law.
- iii. When under changed circumstances it is felt that new method will reflect more true and fair picture in the financial statement.

2. Convention of Conservatism: This is the policy of playing safe game. It takes into consideration all prospective losses but leaves all prospective profits financial statements are usually drawn up on a conservative basis anticipated profit are ignored but anticipated losses are taken into account while drawing the statements following are the examples of the application of the convention of conservatism.

- i. Making the provision for doubtful debts and discount on debtors.
- ii. Valuation of the stock at cost price or market price which ever is less.
- iii. Charging of small capital items, like crockery to revenue.
- iv. Showing joint life policy at surrender value as against the actual amount paid.
- v. Not providing for discount on creditors.

3. Convention of Disclosure: Apart from statutory requirement, good accounting practice also demands that significant information should be disclosed in financial statements. Such disclosures can also be made through footnotes. The purpose of this convention is to communicate all material and relevant facts concerning financial position and results of operations to the users. The contents of balance sheet and profit and loss account are prescribed by law. These are designed to make disclosures of all materials facts compulsory. The practice of appending notes relative to various facts and items which do not find place in accounting statements is in pursuance to the convention of full disclosure of material facts. For example;

- (a) Contingent liability appearing as a note.
- (b) Market value of investments appearing as a note.

The convention of disclosure also applies to events occurring after the balance sheet date and the date on which the financial statement are authorized for issue. Such events include bad debts, destruction of plant and equipment due to natural calamities', major acquisition of another enterprises, etc. such events are likely to have a substantial influence on the earnings and financial position of the enterprises. Their not-disclosure would affect the ability of the users for evaluations and decisions.

4. Convention of Materiality: According to this conventions, the accountant should attach importance to material detail and ignore insignificant details in the financial statement. In materiality principle, all the items having significant economics effect on the business of the enterprises should be disclosed in the financial statement.